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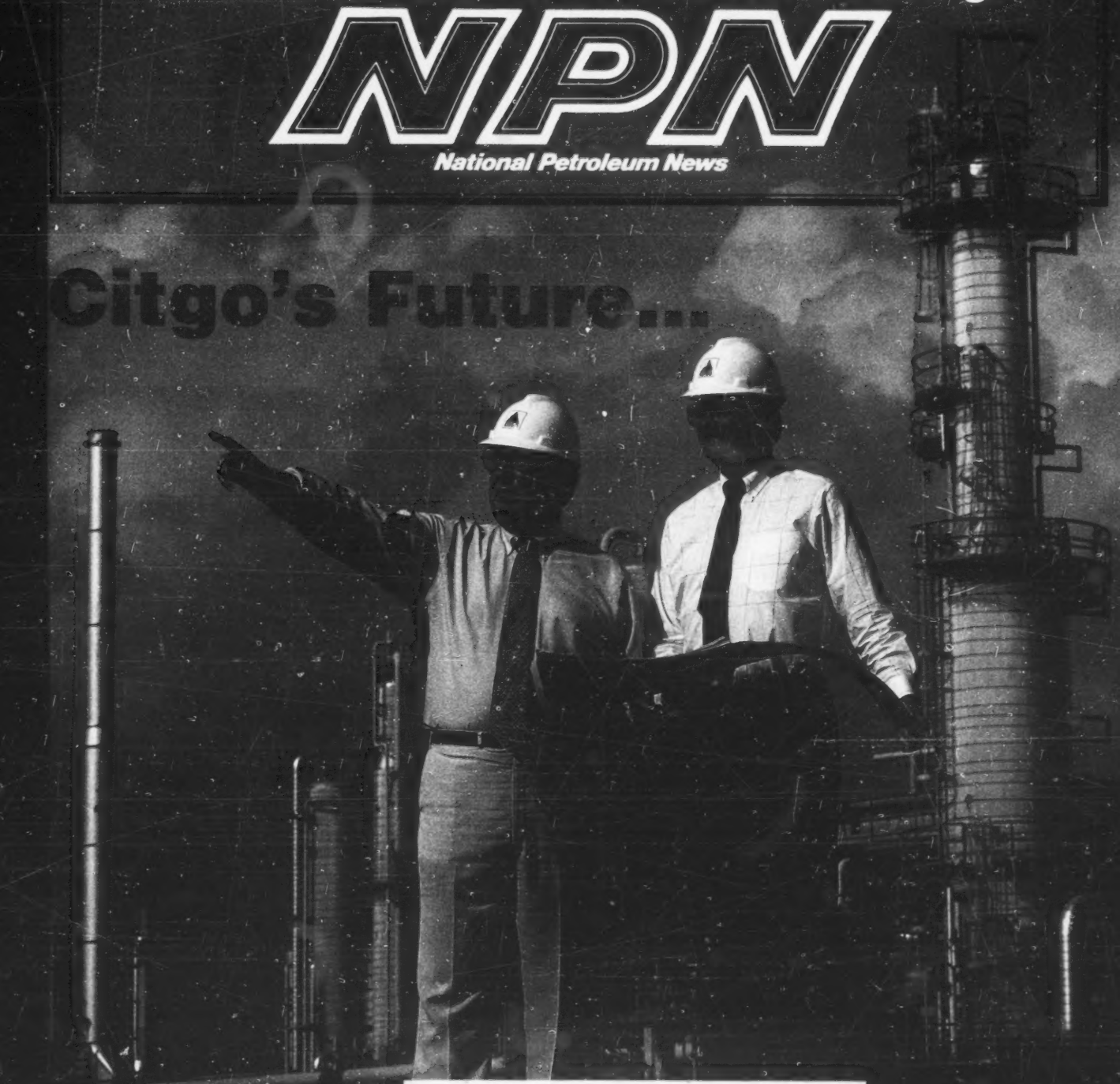
Dual Brands Helps Jobber Succeed
POS Transactions Made Faster And Cheaper
San Francisco Freezes Station Closings

NPN
National Petroleum News



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Editor's Viewpoint

One of the most troublesome decisions a new editor has to make is to determine the subject of that first editorial. I vacillated for quite awhile about whether I should simply introduce myself or target an industry issue for comment. After much deliberation I concluded that my face is pretty familiar to petroleum marketers and oil company execs with whom I have had the pleasure of spending time since I joined the *National Petroleum News* staff two and a half years ago.

Therefore, instead of telling you about myself, I decided to focus on you, the reader, and seek your participation and involvement in continuing to make the Editor's Viewpoint a meaningful monthly exercise.

During the past couple of years I have tried to understand the issues you are struggling with—from underground storage tank regulations, to Stage II, to operating a successful C-store, and so on. Although my role as managing editor was helpful, at the same time it limited my getting out of the office as often as I would have liked, or even making a few random calls just to say hello and ask what's new.

However, now that I am editor, I hope to meet even more of you and gain a better understanding of what your concerns are. The best way to accomplish this goal is to ask you to send in letters about the topics you want to read and learn more about. More specifically, are you interested in reading more about alternative motor fuels, C-store trends, jobber cases or whatever? I know that finding the time to dictate a letter can be a nuisance, so all I ask is that you jot down an idea or two or three, or whatever, even on a napkin if you like, and send it to me. Or, if you prefer, give me a call and we can discuss these topic ideas over the telephone.

You are the reason *NPN* has been around for more than 80 years and we have tried to follow, report and interpret those events that have affected your business. And as editor I hope to continue to meet the expectations you have for the magazine. No doubt, following in the footsteps of Marvin Reid and Frank Victoria will not be an easy task, but with a little help from you and a very talented staff I think it's a goal we can achieve.

Hope to hear from you soon.

—Peggy Smedley

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The "bad times are behind us" says Citgo CEO Ron Hall (above left, with Jerry Thompson, vice president, refining). Hall is looking for a 15%-20% increase in volumes, stations, C-stores and sales by 1995.

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Demand for faster, cheaper electronic transactions has sparked a frenzy of point-of-sale (POS) research and development. New ideas include POS devices installed in the pump and funds transferred through satellite beams.

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Albuquerque jobber Jim Shepherd handles both Chevron and Diamond Shamrock branded fuels to hold his own in the fiercely competitive New Mexico market.

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• TRENDS

Goal for the '90s: Heading Off Image Problems

Among the many hot potatoes that gasoline marketers are going to have to handle in the early '90s—not counting reformulated fuels and new approaches to engine power—are those involving brand images, integrity, product quality and public acceptance of supplier claims.

Unattended self service, for example, is now in its infancy. As it picks up steam in the decade that's underway, it's going to open many doors of opportunity for legitimate marketers and, at the same time, make it easier for unscrupulous marketers to cheat consumers and give the industry one black eye after another.

The federal government's General Accounting Office only recently alleged that 9%—give or take—of the gasoline sales in the nation's big cities are fraudulent: i.e., that motorists were being clipped right and left as to gasoline quality and octane numbers.

Nine percent is a sizable number of gallons. Assuming 1989's retail sales were around 115-billion gal., this means that 10-billion gal. were octane deficient or mislabelled as to grade. That means that tens of thousands of motorists may have been defrauded of tens of millions of dollars in their purchases, a few pennies at a time.

Consider the case of a metropolitan New York gasoline retailer. The city's commissioner of Consumer Affairs had a field day in May when he personally—much to the delight of the TV crews who had been tipped off well in advance—padlocked a station in Brooklyn.

This retailer, described by the commissioner as "one of the worst octane cheaters" in the city, was nailed for selling gasoline 1.2-octane numbers under the 93 posted on the pump face. Earlier tests, said the commissioner, indicated the same station had been caught selling regular (87-octane) as premium (93-octane).

The commissioner added that the retailer had been cited 10 times in one year for octane cheating and was fined $22,900 for 26 violations at five outlets. Two weeks after the commissioner announced that he would fine the retailer a record-breaking $30,000, the man showed up with a shopping bag full of bills, mostly $20s, and paid it. Presumably, the retailer will be back in business before long; maybe even by the time this article appears in print. It's truly a sad commentary that situations like this can be repeated over and over again.

Perhaps oil marketers could take a cue from the health warnings that the U.S. Surgeon General has forced tobacco companies to imprint on every package of smokes. What an impact it would have if signs like this could be mandated for at least 90 days at a time at every station that's caught cheating:

WARNING

The Attorney General has reason to believe that the operator of this station has been known to sell gasolines whose octane values fail to match the octane numbers posted on the pump face. Motorists are cautioned that they may be defrauded in their purchases unless they are alert and careful.

It might take an Act of Congress or an Act of God, as old Will Rogers used to say, to work out the details and make them stick. Don't comment that such a tactic is harebrained or can't be done. The tobacco industry and its self-incriminating health warnings can attest otherwise. So do the mea culpas that the federal government has forced some manufacturers to insert in their advertisements and promotional materials.

Suppliers and marketers are very knowledgeable people. They know which markets are being heisted and by whom. The big boys can no longer afford to walk away and shrug them off and say it's not my brand or even my problem. What the industry needs now is some strong aggressive action to squelch potentially messy situations before they can become scurrilous and nasty. Cooperative action with city and state authorities, the Dept. of Justice, whoever or whatever, the likes of which it has never seen before. This isn't a trend that's already underway, by any means. How nice it would be if it could become one.

—J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

April	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.096	$1.027	$1.044	$1.233
Regions				
Northeast	1.100	1.065	1.019	1.235
North Central	1.117	1.069	1.072	1.275
South	1.091	1.041	1.029	1.206
West	1.078	1.008	1.051	1.245

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	6/1/90	6/2/89
Gasoline (Total)	216,545	221,024
Gasoline (Unleaded)*	165,661	155,078
Jet Kerosine	42,153	39,242
Distillates	104,010	99,315
Residual	45,946	39,416

**Included in gasoline total.*

Source: American Petroleum Institute.

How Space Age Technology Makes POS Transactions Faster And Less Expensive

The major oil companies' demand for faster, cheaper electronic transactions has ignited a new frenzy of point-of-sale (POS) research and development, leading to such ideas as installing POS devices right into the pump and transferring funds through high-tech satellite beams.

The talk may sound futuristic, but what the majors need is both clear and immediate: the ability to quickly and conveniently authorize credit, accommodate the growing number of commercial fleet clients and debit a customer's bank account—all at a reasonable price.

"Our number one focus is customer satisfaction. If you can reduce checkout time from 15-20 seconds to two seconds, customers appreciate that," says a Diamond Shamrock executive.

Presently, the fastest transaction times come from what are known as "dedicated" or "leased" line hook-ups, in which a private phone line is linked to the retail station and is continuously on. That can get expensive, however, especially since AT&T's breakup in 1983 doubled leased line costs, observers say.

Actual per transaction costs are hard to pinpoint since they vary with each station's transaction volume, but sources say the costs of dedicated lines have risen 300%.

As a result, many companies sacrificed dedicated lines for slower "dial-up" lines. In many dial-up situations, information is stored or "batched" at the station, until enough is collected to dial the system and send a bunch of information at once.

With batching, however, a major would lose the ability to instantly authorize a credit or debit purchase. If a bad sale was made, the customer would be long gone before it was discovered.

The only other option would be dialing up and authorizing each plastic transaction as they occur. The oil company gets authorization, but at the expense of a customer waiting—about 20 seconds—for the sale to go through.

Despite all the current dilemmas, answers are not far away. If today's demands are any indication, stations of the '90s will have POS devices in the pumps (for customers to bypass lines at the cashier altogether), integrated computer systems connecting everything from hoses to tank monitors, scanners to more efficiently inventory convenience store goods and electronic connections to radio waves or even satellite beams to process credit and debit at a blink of an eye—and for the price of what dial-ups cost today.

In a few cases, the service station of the '90s is already here. In-pump POS devices are already in approximately 200 Shell locations, with companies like Mobil moving out of successful test phases with similar devices. Other companies, like Diamond Shamrock, are researching the possibility of scanners as they plan future expansions of their in-store computer systems. And Citgo Petroleum has conducted tests with multi-level phone transmissions, sending transaction data on the same phone lines that people are speaking on.

The face of POS is changing rapidly in many areas, not just with equipment and telecommunications, but in credit, debit and most notably, fleet cards:

- The majors are advancing quickly into commercial fleet fueling. Once left to jobbers and budding cardlock and financial service networks, fleet fueling has become, as one observer put it, a proven marketing strategy. Majors like Shell, Arco, Amoco, Mobil, Chevron, Phillips and Diamond Shamrock already have fleet cards, but Chevron and Mobil have stepped further into the field by signing up their own cardlocks.
- The changing role of credit. As some companies drop tier pricing for credit cards, the role of the proprietary card is being altered. Other developments—the introduction of a new universal gasoline card, good at any branded station—are further chipping away at the credit card as a way to foster brand loyalty.
- The stagnancy of debit. The acceptance of debit appears to have ground to a halt, stopping at the so-called debit "hotspots" of California, Arizona, Texas and Florida. Circle K, for instance, despite its severe financial difficulties has waned in its attempts to market debit, saying that little sup-

Oil companies are beginning to see the potential of fleet accounts—60-billion gal./yr. of fuel consumed by non-passenger vehicles, according to Wright Express, a fleet services company.

By Angel Abcede
Contributing Correspondent

Oil Company Retail Outlets	Total Branded Locations	No. of POS Locations	No. of Prop. Credit Cards	No. of Debit Locations	Fleet Services	Cardlocks	Updating POS
American Petrofina, Inc.	458	2,700	400,000	None	Yes	No	No
Amoco Corp.	10,246	3,000+	16 million	None	Yes	No	Yes
Atlantic Richfield Products Co.	1,673	1,200	None	1,200	Yes	No	Yes
Chevron Corp.	11,969	2,700	6 million	60	Yes	Yes	Yes
Circle K Corp.	847	2,600	N/A	1,400	Yes	No	N/A
Diamond Shamrock	2,000	2,000	N/A	2,000	Yes	No	Yes
Mobil Oil Corp.	11,074	5,300	14 million	5,300	Yes	Yes	Yes
Phillips 66 Co.	9,757	2,300	5 million	*	Yes	No	Yes
Shell Oil Co.	10,847	481**	15 million	None	Yes	No	Yes
Star Enterprise	N/A	N/A	***	None	Yes	No	Yes
Texaco Inc.	15,389****	N/A	12 million	None	Yes	No	Yes

* Some locations in Oklahoma.

** Shell says all its company-operated stores (431 by *1989 Factbook* figures) are on POS, but would not release the number of dealers participating in POS.

*** Accepts Texaco credit card.

**** Includes Star Enterprise locations.

port from the banks dampened its initial enthusiasm.

Satellite transfers

In the past, the idea of debit took the spotlight. Electronically linking a service station with a customer's bank account to debit a purchase without cash was a futuristic thought.

Now imagine that transaction happening without phone lines.

Vertical Blanking Intervals (VBI) is a technology already being developed by the telecommunications industry. Using local television stations, information such as a credit card authorization is sent through satellites to either the oil company credit center or the local bank computer. The information is processed at the host and an "all clear" message is sent back to the station by that same satellite connection.

The technology could bring the speed of a dedicated line for the price of a dial-up, says Don Sieb, director of marketing North America division for Verifone, an electronic transaction and automation company based in Redwood City, Calif.

Similar technology is being developed using radio waves, Sieb says.

Verifone recently announced a test involving Citgo and several other network and telecommunications companies to bring transaction time down to eight seconds for the same price of a dial-up network.

Called "Fastconnect," the system can combine voice and digital data transmissions, sending credit or debit information over the same line that other people are talking on. The technology quickens the speed of a dial-up line, and in the case of Citgo, brought the transaction time down to eight seconds from call to printed receipt.

The six-station trial began last December and concluded last spring.

POS evolution

With every major oil company having a working POS system in place, advanced automation is the next logical step, according to both oil company execs and manufacturers.

The hunger for more advanced POS technology wasn't always the case, as many POS makers can attest. "The early part of the '80s through 1985 was a stable period for equipment," says Rollie White, manager of Wayne products support for Dresser, Wayne Division. He says demand for the standard product was steady and few changes were made.

POS had just been brewing in the minds of the majors, with Mobil Oil being the first to act.

Johnathan Briggs, a POS executive with Mobil at the time, says all the oil companies were interested in was capturing enough data to zip off to the host computer and electronically process the transaction.

Primary motivations were eliminating bad debt, reducing float time and getting rid of all the paper involved in check transactions, says Briggs, who is now with Verifone.

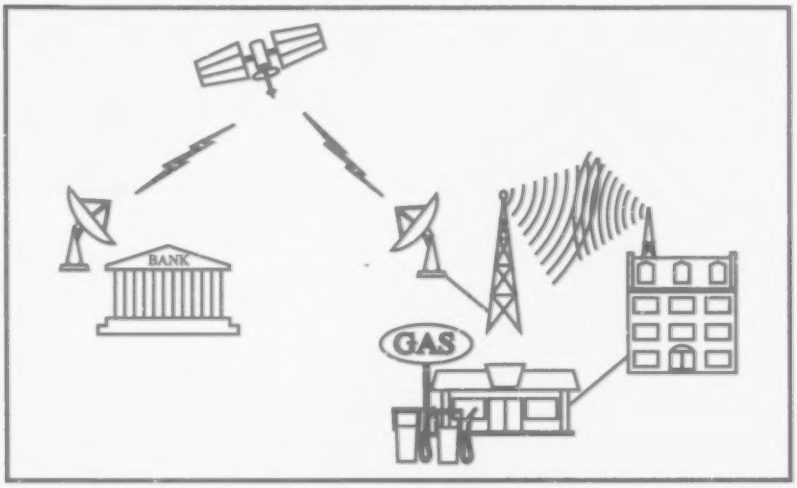
Evolution in POS, according to Briggs, was and still is driven by the cost of communications. With the breakup of AT&T, communication costs in many instances more than doubled, Briggs says. With oil companies having millions of circulating proprietary cards, high-volume stations could be processing as many as 200 transactions a day. Costs drove many companies to cost-saving solutions.

One of these solutions was batching, which drove a need to increase the memory of the in-store computer. A service station computer now had to store much more than was originally intended.

On top of it all, costs at that time for the technology were high. Briggs says a computer with a 64K memory would cost $1,500 then, and a similar unit today, with 512K, costs $1,000.

The majors' move to C-stores during the '80s also placed more demand on the in-store computer. "At this point, it's inevitable that food retailing requires computer power," says Dwight Romanica, president of Canmax Retail Systems, Inc. out of Toronto. "Everyone wants a PC in the store controlling everything: tank monitors, locks on bathroom doors, even revenue from the payphone."

Executives from Diamond Shamrock say there is value in electronic inventory and are



Satellite hookups may make POS transactions cheaper and faster. Today's technology can already send a credit verification from the gasoline station to a transmission point (where information is turned into television waves) and sent via satellite to a bank's file for authorization, and then back again.

considering installing so-called "scanning" devices at their locations.

High-end technology has advanced through the latter part of the decade, Briggs says, with card readers fitted into the pumps (like the Gilbarco devices involved in Shell's program) and integrated microcomputers that keep tabs on every phase of a station's operation.

Software to tie together every aspect of the gasoline and C-store outlet is on the market in different forms. Romanica says the difficulty software companies face is dealing with pump and other equipment manufacturers who also want to get into the game. His company has run into problems getting information from manufacturers in order to come up with software, he says.

In addition to software developments, Briggs says terminal display technology has improved, with screens becoming easier to read and more user-friendly.

Recent POS developments come at a time when many oil companies are upgrading their systems. Of the 10 companies that responded to a recent *NPN* survey, eight are currently updating their equipment for the future.

Generally, Briggs sees developments in automation continuing. "I don't think anything remains static," Briggs says. "If history is a teacher, we'll be seeing better equipment at a fraction of the cost."

Fleets, cardlocks

An offshoot to this "beefing up" of POS systems by the majors is a move into the field of fleet cards. Some oil companies, like Shell and Amoco, have been offering cards for a couple of years now, but recently a few of the majors have begun standalone cardlock operations.

Chevron has announced the first phase of its cardlock plan, offering it to jobbers in nine Western states. The decision to roll out the program east of the Rockies has been put off until next year, says David Reeves, manager of jobber services for Chevron.

In this first phase, Chevron will have only clearing house functions, with new cardlocks being constructed by jobbers, Reeves says. Chevron hopes to have between 400-500 cardlock sites over the next five years, he says. It is targeting diesel fuel for its cardlock locations, focusing on industrial-type commercial accounts, he says.

Reeves described Chevron's move into cardlocks as less of an aggressive claim on a growing market, but more of a "defensive position." As the Environmental Protection Agency regulations force more commercial businesses to remove their in-house tanks, Chevron loses business on the wholesale level. "We could have been supplying those commercial fleets with wholesale product already," he says. So rather than lose business, Chevron says it is attempting to pick it back up through cardlocks.

Mobil, the second major oil company to announce a cardlock program, declined to comment on it since it was so new. But Mobil did provide a spokesperson for its fleet program, which is pretty standard for the majors.

Marti Miller, Mobil fleet manager, says the program provides a choice of a "standard" and an "enhanced" report for the commercial fleet customer.

The standard report is free and groups client purchases by car number, giving subtotals, times and dates of purchases.

The enhanced report gets into odometer readings, types of fuel, quantities of oil, snack foods purchased and other sale information.

Mobil's strategy is similar to the other majors in form and execution, with the final goal being the capture of some of the 60-billion gal. of motor fuel consumed in the United States annually by non-passenger cars.

Many oil companies see growth in fleet business. "(Fleets) are a great area to focus on," says Andy Roberts, manager of acquisition and administration for Diamond Shamrock. "Growth will be there for a while, but it's paramount to be positioned well."

Fleet networks respond

With the majors inching further into the game, fleet service networks like Gascard, Wright Express and Pacific Pride, who pioneered their networks in the early '80s, are watching formidable opponents enter the market.

"The majors have now seen fleets as a proven marketing strategy," says Mike Dubyak, vice president of marketing and sales for Wright Express.

Fleet and the related phenomenon of unattended fueling can be compared to the growth of self service, says Jim Utasi, vice president of marketing for Autogas Systems Inc. of Abilene, Texas, an equipment and network services company. "Where self service was 5% in 1971, it's 90% today," he says.

The entry of companies like Chevron and Mobil into cardlocks "validates" that there is a business out there, says Lindsay Holland of Gascard.

But while these original fleet networks see the entry of the majors as a competitive threat, they don't believe the majors provide the same level of services they do.

"We can market rings around the majors," says Holland. "We can call on the customer, adjust product need. The big guys just aren't into that kind of marketing and product service."

Holland says the majors' interests are more on the upstream level, and that fleet fueling is just a small part of what they do downstream. "When you talk about the majors downstream, you're talking about the tail, the dog is way upstream," Holland says.

Miller of Mobil disagrees. "(Mobil) did not get into fleet fueling if we didn't intend to do it right."

Mobil has developed a completely different billing statement, made modifications to its business recording methods and upgraded station terminals all specifically to handle the new service, Miller says.

Despite the difference of opinion, Holland believes that with the billions of commercial gallons out there, he sees room for many competitors. "If you take Gascard's 120-

Cutting transaction time from 20 seconds to two seconds for a reasonable price is the majors' current point-of-sale goal.

million gals./yr. and multiply that by say 10 players, you've only got 1.2-billion." With at least one estimate of consumption of non-passenger cars at 60-billion, there's "a tremendous potential" in fleet fueling.

Role of plastic

As fleet cards become even more prominent in oil company marketing strategies, the dynamics of plastic transactions become apparent.

Even in the areas of credit and debit, developments have been slowly changing the POS picture.

For debit, more advertisement on the part of supermarkets has helped increase customer awareness of the payment option, according to Anita Best, electronic services manager for Circle K. But in general, debit is stagnant, she says.

Transaction volumes, she says, have leveled off in Arizona and have been disappointing in Florida.

Certainly, Circle K isn't the only chain accepting debit, with big majors like Exxon, Mobil and Arco taking bank cards, but Circle K had quite a big program going in the South and Southwest.

Today, 1,400 Circle K locations accept debit with a total of 2,600 automated stations, Best says.

"We haven't promoted debit in two years," Best says. "It gets frustrating being the only one out there promoting it. We haven't seen the banks promoting it either."

She says a lack of public awareness still hampers debit, and while Circle K has seen users of automatic teller machines (ATMs) participating in debit, the company has seen no new customers.

Even though debit appears to have leveled off, the role of the credit card appears to be changing.

The prominence of the proprietary credit card still remains with companies like Mobil and Shell having 14-million and 15-million, respectively, in circulation.

But as companies like Phillips eliminate cash discounts and institute policies charging the same price for cash and credit, the perception of credit changes.

Still, an Amoco spokesperson says, "Discount for cash still plays an important role in meeting customer preference. It's been very successful for us and there are no plans to change it at this time. Our customers see the value of the credit card and it's worth it to them."

Time will tell, however, if customers view the cash price as a discount or simply as a higher fee for credit—a fee they don't have to pay with a competing credit card.

Developments today are shaking the very core of what credit cards are thought to do: instill brand loyalty.

The recent introduction of a "universal" gasoline credit card by Petrocredit Corp., in Reston, Va., has brought up the question of brand loyalty and the credit card's pull on a customer.

Kenneth Poole of Petrocredit says location is the number one factor in people's decisions on where to fill up, and that the average credit card user has two or three major proprietary cards.

Citing in-house and industry studies, Poole says, "To customers, all major oil companies were the same, and they would fill up with any brand that was on their route between home and business."

He adds that a person may get the credit card of his or her primary filling station and use other credit cards for fill ups at other stations when traveling outside normal routes.

A universal credit card, issued through MasterCard and Visa banks, would allow customers to consolidate their gasoline cards into one card. Poole says people don't readily use their MasterCard and Visa cards for gasoline because they save those cards for big ticket purchases, but since most service stations take the cards, the universal gasoline card can be accepted just about anywhere and used much like a proprietary credit card.

While oil companies refused to participate for fear of supporting a card that would encourage its customers to fuel at a competing location, Poole says that's not the case. He says customers will still fill up at their primary, en-route-to-work locations. They may stray in the secondary purchases, Poole says. For instance, while making a special trip to an aunt's house, a customer may choose a Shell station over looking for a Mobil location due to convenience. But if all oil companies are participating, the trade of business will even out, and Mobil may get a mostly-Shell customer who finds a Mobil location more convenient at the time.

The Amoco spokesperson speaks staunchly for the proprietary card's ability to instill brand loyalty, but says the viewpoint of the universal card is also right.

"No one customer is the same," he says. "There's an important segment out there where brand loyalty is a primary motivation, and there is a category of customer whose loyalty is spread."

As the debate over the role of credit continues, one thing is certain: change is inevitable. From advances in hardware and software to consumer buying habits, from corporate philosophy to marketing strategies, POS is an ever-changing arena. As one Texaco spokesperson put it, "The bottom line is you've always got to keep current on POS."

Major oil's changing view of the proprietary credit card has resulted in new "same price for cash or credit" policies.